BCE Q3 2023 Results Conference Call

Mirko Bibic
President and Chief Executive Officer

Curtis Millen
Executive Vice President and CFO

November 2, 2023

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain statements made by BCE's President and Chief Executive Officer and Executive Vice President and Chief Financial Officer during BCE's Q3 2023 Results Conference Call, as reflected in this transcript, are forward-looking statements. These statements include, without limitation, statements relating to BCE's financial guidance (including revenue, adjusted EBITDA, capital intensity, adjusted EPS and free cash flow), BCE's 2023 annualized common share dividend and dividend growth objective, BCE's planned capital expenditures for the fourth quarter of 2023, BCE's network deployment plans and anticipated capital expenditures as well as the benefits expected to result therefrom, the expectation of a year-over-year improvement in BCE free cash flow in the fourth quarter of 2023, the expectation of a stronger adjusted EBITDA growth trajectory for Q4 2023, the expected timing and completion of the proposed acquisition of the Canadian operations of OUTFRONT Media Inc. and the benefits expected to result therefrom, BCE's business outlook, objectives, plans and strategic priorities, and other statements that are not historical facts. Forward-looking statements are typically identified by the words assumption, goal, guidance, objective, outlook, project, strategy, target, commitment and other similar expressions or future or conditional verbs such as aim, anticipate, believe, could, expect, intend, may, plan, seek, should, strive and will. All such forward-looking statements are made pursuant to the 'safe harbour' provisions of applicable Canadian securities laws and of the United States Private Securities Litigation Reform Act of 1995.

Forward-looking statements, by their very nature, are subject to inherent risks and uncertainties and are based on several assumptions, both general and specific, which give rise to the possibility that actual results or events could differ materially from our expectations expressed in or implied by such forward-looking statements and that our business outlook, objectives, plans and strategic priorities may not be achieved. These statements are not guarantees of future performance or events, and we caution you against relying on any of these forward-looking statements. The forward-looking statements contained in this transcript describe our expectations as of November 2, 2023 and, accordingly, are subject to change after such date. Except as may be required by applicable securities laws, we do not undertake any obligation to update or revise any forward-looking statements contained in this transcript, whether as a result of new information, future events or otherwise. We regularly consider potential acquisitions, dispositions, mergers, business combinations, investments, monetizations, joint ventures and other transactions, some of which may be significant. Except as otherwise indicated by BCE, forward-looking statements do not reflect the potential impact of any such transactions or of special items that may be announced or that may occur after November 2, 2023. The financial impact of these transactions and special items can be complex and depends on the facts particular to each of them. We therefore cannot describe the expected impact in a meaningful way or in the same way we present known risks affecting our business. Forward-looking statements were made during BCE's Q3 2023 Results Conference Call for the purpose of assisting investors and others in understanding certain key elements of our expected financial results, as well as our objectives, strategic priorities and business outlook, and in obtaining a better understanding of our anticipated operating environment. Readers are cautioned that such information may not be appropriate for other purposes. The forward-looking statements made during BCE's Q3 2023 Results Conference Call for periods beyond 2023 assume, unless otherwise indicated, that the economic, market, operational and financial assumptions as well as the material risk factors described in this transcript will remain substantially unchanged during such periods, except for an assumed improvement in the risks related to the COVID-19 pandemic in future years.

Material Assumptions
A number of economic, market, operational and financial assumptions were made by BCE in preparing certain forward-looking statements contained in this transcript, including, but not limited to the following:

Canadian Economic Assumptions
Our forward-looking statements are based on certain assumptions concerning the Canadian economy. In particular, we have assumed:

- *Slowing economic growth, given the Bank of Canada's most recent estimated growth in Canadian gross domestic product of 1.2% in 2023, representing a decrease from the earlier estimate of 1.8%*
- *Easing, but still elevated, consumer price index (CPI) inflation as the effects of past interest rate increases work through the economy*
- *Easing labour market pressures*
- *Muted growth in household spending due to the ongoing effects of higher interest rates and the rising cost of living*
- *Soft business investment growth due to elevated borrowing costs, tight credit conditions and the prospect of slowing economic activity*
- *Prevailing high interest rates expected to remain at or near current levels*
- *Population growth resulting from strong immigration*
- *Canadian dollar expected to remain near current levels. Further movements may be impacted by the degree of strength of the U.S. dollar, interest rates and changes in commodity prices*

Canadian Market Assumptions
Our forward-looking statements also reflect various Canadian market assumptions. In particular, we have made the following market assumptions:

- *A higher level of wireline and wireless competition in consumer, business and wholesale markets*
- *Higher, but slowing, wireless industry penetration*
- *A shrinking data and voice connectivity market as business customers migrate to lower-priced telecommunications solutions or alternative over-the-top (OTT) competitors*
- *The Canadian advertising market is experiencing a slowdown consistent with trends in the global advertising market, with improvement expected in the medium term, although visibility to the specific timing and pace of recovery remains limited*
- *Declines in broadcasting distribution undertaking (BDU) subscribers driven by increasing competition from the continued rollout of subscription video-on-demand (SVOD) streaming services together with further scaling of OTT aggregators*

- *Assumptions Concerning our Bell CTS Segment*
- *Our forward-looking statements are also based on the following internal operational assumptions with respect to our Bell CTS segment:*
- *Maintain our market share of national operators' wireless postpaid mobile phone net additions and growth of our prepaid subscriber base*
- *Increased competitive intensity and promotional activity across all regions and market segments*
- *Ongoing expansion and deployment of Fifth Generation (5G) and 5G+ wireless networks, offering competitive coverage and quality*
- *Continued diversification of our distribution strategy with a focus on expanding direct-to-consumer (DTC) and online transactions*
- *Moderating growth in mobile phone blended ARPU, driven by growth in 5G subscriptions, and increased roaming revenue from the easing of travel restrictions implemented as a result of the COVID-19 pandemic, partly offset by reduced data overage revenue due, among others, to the continued adoption of unlimited plans*
- *Accelerating business customer adoption of advanced 5G, 5G+ and Internet of Things (IoT) solutions*
- *Improving wireless handset device availability in addition to stable device pricing and margins*
- *Further deployment of direct fibre to more homes and businesses within our wireline footprint*
- *Continued growth in retail Internet and IPTV subscribers*
- *Increasing wireless and Internet-based technological substitution*
- *Continued aggressive residential service bundle offers from cable TV competitors in our local wireline areas, moderated by growing our share of competitive residential service bundles*
- *Continued large business customer migration to IP-based systems*
- *Ongoing competitive repricing pressures in our business and wholesale markets*
- *Continued competitive intensity in our small and medium-sized business markets as cable operators and other telecommunications competitors continue to intensify their focus on business customers*
- *Traditional high-margin product categories challenged by large global cloud and OTT providers of business voice and data solutions expanding into Canada with on-demand services*
- *Increasing customer adoption of OTT services resulting in downsizing of TV packages*
- *Growing consumption of OTT TV services and on-demand video streaming, as well as the proliferation of devices, such as tablets, that consume large quantities of bandwidth, will require ongoing capital investment*
- *Realization of cost savings related to operating efficiencies enabled by a growing direct fibre footprint, changes in consumer behaviour and product innovation, digital adoption, product and service enhancements, expanding self-serve capabilities, new call centre and digital investments, other improvements to the customer service experience, management workforce reductions including attrition and retirements, and lower contracted rates from our suppliers*
- *No adverse material financial, operational or competitive consequences of changes in or implementation of regulations affecting our communication and technology services business*

- *Assumptions Concerning our Bell Media Segment*
- *Our forward-looking statements are also based on the following internal operational assumptions with respect to our Bell Media segment:*
- *Overall digital revenue expected to reflect continued scaling of our Strategic Audience Management (SAM) TV and demand-side platform (DSP) buying platforms, as well as DTC subscriber growth contributing towards the advancement of our digital-first media strategy*

- *Continued escalation of media content costs to secure quality programming*
- *Continued scaling of Crave through broader content offering, user experience improvements and expanded distribution*
- *Continued investment in Noovo original programming to better serve our French-language customers with a wider array of content on their preferred platforms*
- *Leveraging of first-party data to improve targeting, advertisement delivery and attribution*
- *Ability to successfully acquire and produce highly-rated programming and differentiated content*
- *Building and maintaining strategic supply arrangements for content across all screens and platforms*
- *No adverse material financial, operational or competitive consequences of changes in or implementation of regulations affecting our media business*

Financial Assumptions Concerning BCE
Our forward-looking statements are also based on the following internal financial assumptions with respect to BCE for 2023:

- *An estimated post-employment benefit plans service cost of approximately $210 million*
- *An estimated net return on post-employment benefit plans of approximately $100 million*
- *Depreciation and amortization expense of approximately $4,900 million to $4,950 million*
- *Interest expense of approximately $1,425 million to $1,475 million*
- *Interest paid of approximately $1,450 million to $1,500 million*
- *An average effective tax rate of approximately 26%*
- *Non-controlling interest of approximately $65 million*
- *Contributions to post-employment benefit plans of approximately $60 million*
- *Payments under other post-employment benefit plans of approximately $75 million*
- *Income taxes paid (net of refunds) of approximately $800 million to $900 million*
- *Weighted average number of BCE common shares outstanding of approximately 914 million*
- *An annual common share dividend of $3.87 per share*
- *Assumptions underlying expected reductions in 2023 annual contributions to our pension plans*
- *Our forward-looking statements are also based on the following principal assumptions underlying expected reductions in 2023 annual contributions to our pension plans:*
- *At the relevant time, our defined benefit (DB) pension plans will remain in funded positions with going concern surpluses and maintain solvency ratios that exceed the minimum legal requirements for a contribution holiday to be taken for applicable DB and defined contribution (DC) components*
- *No significant declines in our DB pension plans' financial position due to declines in investment returns or interest rates*
- *No material experience losses from other events such as through litigation or changes in laws, regulations or actuarial standards*

The foregoing assumptions, although considered reasonable by BCE on November 2, 2023, may prove to be inaccurate. Accordingly, our actual results could differ materially from our expectations as set forth in this transcript.

Material Risks
Important risk factors that could cause our assumptions and estimates to be inaccurate and actual results or events to differ materially from those expressed in, or implied by, our forward-looking statements, including our 2023 financial guidance, are listed below. The realization of our forward-looking statements, including our ability to meet our 2023 financial guidance targets, essentially depends on our business performance, which, in turn, is subject to many risks. Accordingly, readers are cautioned that any of the following risks could have a material adverse effect on our forward-looking statements. These risks include, but are not limited to: the negative effect of adverse economic conditions, including a potential recession, and related inflationary cost pressures, higher interest rates and financial and capital market volatility; the negative effect of adverse conditions associated with geopolitical events; a declining level of business and consumer spending, and the resulting negative impact on the demand for, and prices of, our products and services; regulatory initiatives, proceedings and decisions, government consultations and government positions that affect us and influence our business including, without limitation, concerning mandatory access to networks, spectrum auctions, the imposition of consumer-related codes of conduct, approval of acquisitions, broadcast and spectrum licensing, foreign ownership requirements, privacy and cybersecurity obligations and control of copyright piracy; the inability to implement enhanced compliance frameworks and to comply with legal and regulatory obligations; unfavourable resolution of legal proceedings; the intensity of competitive activity and the failure to effectively respond to evolving competitive dynamics; the combination of Rogers Communications Inc. and Shaw Communications Inc. creating a Canadian competitor with larger scale, and the acquisition of Freedom Mobile by Videotron Ltd. also increasing its scale with a change in competitive dynamics in several provinces; the level of technological

substitution and the presence of alternative service providers contributing to disruptions and disintermediation in each of our business segments; changing customer behaviour and the expansion of cloud-based, OTT and other alternative solutions; advertising market pressures from economic conditions, fragmentation and non-traditional/global digital services; rising content costs and challenges in our ability to acquire or develop key content; higher Canadian smartphone penetration and reduced or slower immigration flow; the inability to protect our physical and non-physical assets from events such as information security attacks, unauthorized access or entry, fire and natural disasters; the failure to implement effective data governance; the failure to evolve and transform our networks, systems and operations using next-generation technologies while lowering our cost structure; the inability to drive a positive customer experience; the failure to attract, develop and retain a diverse and talented team capable of furthering our strategic imperatives; the failure to adequately manage health and safety concerns; labour disruptions and shortages; the failure to maintain operational networks; the risk that we may need to incur significant capital expenditures to provide additional capacity and reduce network congestion; the inability to maintain service consistency due to network failures or slowdowns, the failure of other infrastructure, or disruptions in the delivery of services; service interruptions or outages due to legacy infrastructure and the possibility of instability as we transition towards converged wireline and wireless networks and newer technologies; the failure by us, or by other telecommunications carriers on which we rely to provide services, to complete planned and sufficient testing, maintenance, replacement or upgrade of our or their networks, equipment and other facilities, which could disrupt our operations including through network or other infrastructure failures; events affecting the functionality of, and our ability to protect, test, maintain, replace and upgrade, our networks, information technology (IT) systems, equipment and other facilities; the complexity of our operations; the failure to implement or maintain highly effective processes and IT systems; in-orbit and other operational risks to which the satellites used to provide our satellite TV services are subject; our dependence on third-party suppliers, outsourcers, and consultants to provide an uninterrupted supply of the products and services we need; the failure of our vendor selection, governance and oversight processes, including our management of supplier risk in the areas of security, data governance and responsible procurement; the quality of our products and services and the extent to which they may be subject to defects or fail to comply with applicable government regulations and standards; reputational risks and the inability to meaningfully integrate ESG considerations into our business strategy and operations; the failure to take appropriate actions to adapt to current and emerging environmental impacts, including climate change; pandemics, epidemics and other health risks, including health concerns about radio frequency emissions from wireless communications devices and equipment; the inability to adequately manage social issues; the failure to develop and implement strong corporate governance practices; various internal and external factors could challenge our ability to achieve our ESG targets including, without limitation, those related to greenhouse gas (GHG) emissions reduction and diversity, equity, inclusion and belonging; the inability to access adequate sources of capital and generate sufficient cash flows from operating activities to meet our cash requirements, fund capital expenditures and provide for planned growth; uncertainty as to whether dividends will be declared by BCE's board of directors or whether the dividend on common shares will be increased; the inability to manage various credit, liquidity and market risks; the failure to reduce costs, as well as unexpected increases in costs; the failure to evolve practices to effectively monitor and control fraudulent activities; new or higher taxes due to new tax laws or changes thereto or in the interpretation thereof, and the inability to predict the outcome of government audits; the impact on our financial statements and estimates from a number of factors; pension obligation volatility and increased contributions to post-employment benefit plans; and the expected timing and completion of the proposed acquisition of the Canadian out-of-home media business of OUTFRONT Media Inc. is subject to closing conditions and other risks and uncertainties, and there can be no certainty that the anticipated benefits will be realized.

We caution that the foregoing list of risk factors is not exhaustive and other factors could also adversely affect our results. We encourage investors to also read BCE's 2022 Annual MD&A dated March 2, 2023 and BCE's 2023 First, Second and Third Quarter MD&As dated May 3, 2023, August 2, 2023 and November 1, 2023, respectively, and BCE's news release dated November 2, 2023 announcing its financial results for the third quarter of 2023 for additional information with respect to certain of these and other assumptions and risks, filed by BCE with the Canadian provincial securities regulatory authorities (available at Sedarplus.ca) and with the U.S. Securities and Exchange Commission (available at SEC.gov). These documents are also available at BCE.ca.

CORPORATE PARTICIPANTS

Mirko Bibic
President and CEO

Curtis Millen
Executive Vice President and CFO

Thane Fotopoulos
Vice President - IR

CONFERENCE CALL PARTICIPANTS

David Barden
BoA Securities – Analyst

Tim Casey
BMO Capital Markets – Analyst

Stephanie Price
CIBC World Markets – Analyst

Aravinda Galappatthige
Canaccord Genuity – Analyst

Jérôme Dubreuil
Desjardins Securities – Analyst

Simon Flannery
Morgan Stanley – Analyst

Drew McReynolds
RBC Capital Markets – Analyst

Maher Yaghi
Scotiabank – Analyst

Batya Levi
UBS – Analyst

PRESENTATION

Operator

Good morning ladies and gentlemen, and welcome to the BCE Q3 2023 Results Conference Call.

I would now like to turn the meeting over to Mr. Thane Fotopoulos. Please go ahead, sir.

Thane Fotopoulos – Vice President – IR

Thank you, Matthew. Good morning, everyone, and thank you for joining our call. Today I'm here with Mirko Bibic, President and CEO of BCE and our new CFO, Curtis Millen. You can find all of our Q3 disclosure documents on the Investor Relations page of the bce.ca website, which we posted earlier this morning.

Before we begin, I'd like to draw your attention to our safe harbor statement on Slide 2, reminding you that today's slide presentation and remarks made during the call will include forward-looking information and therefore are subject to certain risks and uncertainties. Results could differ materially. We disclaim any obligation to update forward-looking statements, except as required by law. Please refer to BCE's publicly filed documents for more details on our assumptions and risks.

So with that, I'll turn the call over to Mirko.

Mirko Bibic – President and CEO

Thank you Thane and good morning everyone.

I'm very proud of the Bell team's accomplishments and our performance in the third quarter. These results reflect the outcome of significant and consistent investments in broadband networks and services, continued strong momentum in our core telecom business operations, promotional offer discipline with an emphasis on multi-product bundling and the streamlining of costs.

We delivered consolidated adjusted EBITDA growth of 3.1%, representing our best quarterly result since Q2 2022. This was achieved while confronting ongoing media advertising headwinds and a more active pricing environment across all consumer products. BCE's margin expanded 0.9 percentage points to 43.9%, demonstrating our proven ability to drive costs out of the business and to effectively balance growth with profitability in a highly competitive marketplace.

With all new targeted fibre locations for 2023 now either completed or under construction, with 5G coverage targets well on track and with continued regulatory uncertainty on a number of files, we reduced, capex spending in Q3, all of which contributed to stronger free cash flow growth this quarter as profiled in our budget for 2023. This will accelerate even more profoundly in Q4, keeping us on track to achieve our free cash flow guidance of 2% or higher growth for 2023.

The strong performance of our CTS segment this quarter is underpinned by our leading broadband networks, consistently recognized by third parties for unmatched symmetrical fibre Internet service, fastest 5G speeds, breadth of coverage and affordable prices, as well as increased customer bundling that serves as an important churn management tool.

In Wireless, we delivered 231,212 new mobile phone and connected device net activations — our second best quarter ever. A great result even when comparing to last year's record performance and taking into consideration the notable step-up in competitive intensity this year, particularly during the back-to-school period given the new competitive landscape.

Consumer wireless service revenue was up a healthy 4.7%, reflecting our focus on high-quality, premium brand customer loadings and careful management of our pricing plans. This is being supported by a growing base of postpaid customers on 5G-capable devices, the vast majority of whom are subscribing to premium unlimited data plans. At the end of Q3, half of all postpaid customers were on 5G-capable devices, up from 35% last year. In residential wireline, we continue to win even more broadband customers in fibre areas as we face sustained competitive activity from the cablecos in our DSL copper footprint. We added a quarterly record 104,159 new net fibre-to-the-home customers in Q3, up 7.9% over last year. Of these, 71% signed up for Gigabit or higher speed tiers or 22% higher than Q3 2022. Customers are continuing to move to higher Internet speed tiers, recognizing the superior performance of Bell's pure fibre network, the compelling value of symmetrical speeds, and the value and reliability of our multiple-product offerings as evidenced by the 24% year-over-year increase in new customers subscribing to mobility and Internet service bundles.

Our rapidly growing base of Internet customers on Gigabit or higher speed tiers, which now represent 52% of Bell's total fibre-to-the-home subscriber base, contributed to strong 6.1% residential Internet revenue growth this quarter.

And I would like to point out that Bell continues to deliver world-leading broadband services at declining prices. The latest Stats Canada data shows that the price of all goods and services, in aggregate, across the Canadian economy has increased 3.8% over the past year, while the cost of cellular and Internet access services have declined 7.2% and 7.8% respectively.

Turning to Media. Digital and direct-to-consumer continued to grow strongly, helping to offset much of the secular pressures from traditional media platforms. Digital revenues were up 26% over last year and now comprise 39% of media revenues compared to 30% last year. An impressive result given the current industry backdrop.

Driving this performance was Crave, which grew direct streaming subscribers by 13% over last year on the back of market-leading content. Customer usage of our SAM TV advertising tool also grew seeing sales revenue increase by nearly 50% this quarter. And with the recent introduction of ad-supported subscription tiers on Crave as well as the launch of addressable TV and audio advertising, which will enable advertisers to target ads to specific households or devices, Bell Media is well positioned to capture a higher share of industry digital ad market revenue going forward.

As we consistently execute on our quarterly business plan objectives, we are continuing, in the background, to transform Bell from a traditional telco to a techco services and digital media leader within a new environment marked by more competition, macroeconomic challenges and increased regulatory activity.

Our sharp focus on operational efficiencies and cost optimization is being unlocked by our multi-year fibre journey, increased levels of digitization and automation across the organization, real estate consolidation, copper decommissioning, as well as other initiatives we are undertaking to become more efficient, including, just as an example, moving Fibe TV to a single platform and reducing the number of billing platforms. The investments that we are making in these cost efficiency initiatives are allowing us to accelerate our well progressed plans to digitally revolutionize our business and cut operating costs. Investments need to be made to drive this agenda and we will make them. But more importantly, they will support a stronger EBITDA growth trajectory, margin accretion and free cash flow expansion in the years ahead that will help support our dividend growth objective.

Turning to Slide 5 for a review of some key operating metrics for Q3.

Starting with Bell Wireless. We added 142,886 new net postpaid mobile phone subscribers, bringing total year to date net additions to more than 297,000, or 4.3% higher than 2022. A strong result — in fact, our second highest Q3 result since 2010. This was a function of an 8% increase in gross activations this quarter as churn was consistent with pre-pandemic Q3 levels at 1.1%. ARPU remained stable year over year, even as roaming tailwinds moderated significantly due to lapping the post-Covid recovery. This is a testament to effective customer base management and our focus, again, on premium value subscriber loadings.

We also reported mobile connected device net additions of 64,282, up 31% over last year. This reflects continued strong momentum for Bell's 5G and IoT B2B solutions, including connected car subscriptions that will be an even bigger driver of revenue growth in the future.

Turning to the Wireline side of our CTS segment.

Consumer Internet is having a record year. Fibre net additions were up year over year, exceeding 100,000 for first the first time ever, and recall that Q3 2022 was a record quarter. When including the competitive loss of DSL subscribers in our non-pure fibre footprint, total retail Internet net additions were 79,327, down 11.5%. This consolidated result actually reflects a higher number of customer deactivations in our copper service areas, and over all, demonstrating very clearly the competitive advantages and importance of fibre.

And it was also another solid quarter for Bell IPTV where gross activations grew 11% year over year, reflecting the pull through benefit of fibre Internet and our TV product leadership. However, due to higher customer deactivations on our Fibe app streaming service, which typically occurs following the expiration of previous years' promotional offers, total net activations were down 2,100 versus last year at 36,000.

And rounding out our Wireline subscriber results, Satellite TV net customer losses increased, driven by higher competitor promotional offer intensity, while home phone net losses improved 2.5%. Taken all together, total retail residential net customer additions, including satellite and local phone, increased a very healthy 42,662. This represents our second best-ever result after last year's record performance, which is a tribute to the Bell team's focused execution.

Moving to Bell Media.

While the advertising market remained challenging, TV sports advertising revenue increased in the quarter, driven by our broadcasts of FIFA Women's World Cup Soccer, F1 Grand Prix racing, Wimbledon, and NFL and CFL football, underscoring the value of premium content to advertisers. This helped TSN and RDS assume their ranking as the top English and French-language sports channels in Q3.

Digital revenues also continued to accelerate, growing 26% over last year, benefitting from strong Crave and sports direct to consumer streaming growth, as well as Bell Media's leading, world-class programmatic advertising marketplace.

CTV remained Canada's top network in primetime in the Summer broadcast season, and for the first time ever, all four CTV branded specialty stations ranked in the top 10, including 3 of top 5 and the number one channel, CTV Comedy. And on the non-sports French-language front, Bell Media was ranked number one in full-day viewership in the entertainment and pay specialty market in the key 25 to 54 demographic, while Noovo maintained stable market share over competitors.

In summary, I'm pleased overall with our progress and momentum in Q3. Subscriber growth was healthy across the board, and our generational investments in leading long-life infrastructure assets we have made will continue to support meaningful growth and cost reduction opportunities across the organization.

With that, and for his first time as CFO, I would like to turn the call over to Curtis who will provide more details on our Q3 financial results.

Curtis Millen – Executive Vice President and CFO

Thank you Mirko and good morning everyone. It is an honour and a privilege to assume the role of CFO of this iconic company. I look forward to living up to the high standard set by my predecessor, Glen LeBlanc, and working with all of you in the years ahead.

Turing to Slide 7.

Our consolidated financial performance for Q3 demonstrates the Bell team's consistent execution and focus on profitable subscriber growth and cost discipline in the face of ongoing media advertising challenges and increased competitive intensity across all Bell consumer products. Total service revenue was up a solid 1.7%, while operating costs improved nearly 1%. This collectively delivered 3.1% growth in adjusted EBITDA and a strong 90 basis-point increase in margin. And although Mirko already pointed this out, it bears repeating that this result represents our best consolidated EBITDA growth rate in well over a year.

Despite higher EBITDA, net earnings and adjusted EPS were down versus last year as anticipated and profiled in our quarterly budget for 2023. This was the result of higher financing costs, due to higher rates and more debt outstanding from investments in our growth strategy, higher depreciation and amortization expense from rapid growth in our broadband capital asset base, and higher income taxes as Q3 2022 benefitted from an approximate $80M tax provision reversal related to our acquisition of MTS in 2016.

Capex was down $158M this quarter as we front-end loaded our spending this year given favourable construction conditions during the winter and spring seasons, and realized even better fibre and 5G buildout efficiencies than originally expected. The decline in capex, together with the flow-through of strong EBITDA growth, drove a 17% increase in free cash flow this quarter.

In line with our internal forecast and consistent with our guidance target for 2023, we project a $900M or better year-over-year improvement in Q4 free cash flow. This is comprised of an approximate $500M favourable swing in capex versus last year, lower cash taxes, a positive change in working capital attributable largely to the timing of supplier payments, and a further sequential step-up in EBITDA growth.

Moving to Bell CTS on Slide 8.

Service revenue growth improved sequentially this quarter, increasing to 2%. This was supported by a 6.1% increase in residential Internet revenue, and continued healthy wireless growth, reflecting our focus on premium subscribers and higher year-over-year roaming revenue. We also benefitted from a stronger B2B performance trajectory, driven by higher sales of security and cloud-focused managed and professional services, which will be a key growth vector going forward, and the financial contribution from FX Innovation that we acquired in June. In fact, even when excluding the favourable impact of that acquisition, organic service revenue growth was positive, representing Bell Business Markets' best quarterly result in almost 15 years.

Product revenue was down, due mainly to the timing of wireless-related mobile phone and equipment sales to large enterprise customers particularly in the government sector, which can be quite lumpy, and a tough year-over-year comparable as we lapped the equipment supply chain recovery that began in Q3 of last year.

EBITDA grew 2.4%, which yielded a 45.1% margin — an increase of 60 basis points from last year. This higher margin reflects the strength and quality of our service revenue growth, an easing of year-over-year weather-related and inflationary cost pressures, promotional offer discipline and a continued sharp focus on cost efficiencies.

Over to Bell Media on Slide 9.

While better than industry peers, our top-line financial performance continues to be impacted by a protracted advertising slowdown attributable to the current economic backdrop and Hollywood strikes, a shift of advertising revenue to foreign digital platforms, and a more challenging regulatory environment that has not yet adapted to the new realities facing media. This collectively drove a 1.3% decline in total media revenue this quarter. A respectable result under the circumstances, which is a tribute to our broad mix of assets, premium content, and successful execution of our digital-first media strategy.

The year-over-year rate of decline in advertising revenue improved sequentially this quarter to 5.2% compared to 9% in Q2, benefitting from strong digital advertising growth of 34%. This was further moderated by a 2.9% increase in subscriber revenue, driven by continued strong direct-to-consumer Crave and sports streaming growth. In light of this revenue backdrop, we maintained a keen eye on cost savings and adjusted our operating cost structure in order to support margins and cash flow generation. This enabled us to deliver EBITDA growth of 11.5% and a strong 3.3 point increase in margin to 28.6%.

Turning to the balance sheet on Slide 10.

We ended Q3 with $4.5B of available liquidity, which included the proceeds of a $1B public debt issuance in August and approximately $3.8B in available revolving bank credit and other committed facilities. Given our relatively strong Q3 financial performance, our debt leverage ratio remained stable at 3.5 times adjusted EBITDA.

Our weighted average after-tax cost of all borrowings also remains below prevailing interest rates at around 3% and our average term to maturity is approximately 12 and-a-half years. At these levels, together with a manageable debt maturity schedule in 2024, no further interest rate hikes expected in the immediate term, a sizeable pension solvency surplus and substantial recurring free cash flow generation, we're in a very good financial position heading into next year.

To conclude on Slide 11.

With year-to-date consolidated financial results in line with budget, and even stronger EBITDA and free cash flow growth trajectories projected for Q4, I am reconfirming ALL our financial guidance targets for 2023.

I'll now turn the call back over to Thane and the operator to begin Q&A.

Thane Fotopoulos – Vice President – IR

Great. Thanks, Curtis. So, before we start to keep the call as efficient as possible, please limit yourselves to one question and a brief follow up so we can get to everybody in the queue. If there's additional time at the end, we'll circle back for more questions. With that, Matthew, we are ready to take our first question.

QUESTION AND ANSWER SESSION

Operator

Thank you Thane.

The first question is from David Barden from BofA Securities. Please go ahead..

David Barden – BofA Securities – Analyst

Hey guys, thanks so much for taking the questions. Appreciate it. I guess, Mirko, I think that this quarter, especially kind of in the prepared remarks and the text, you kept calling out the competitive pressures facing, I think, especially the wireless industry, with the ARPU down about 0.2% year-over-year. Obviously, you know, investors have been closely watching the space in the aftermath of the Rogers-Shaw merger close, and Freedom's acquisition by Quebecor, and we're trying to get a level set as to what the competitive intensity of this industry now is and what it might be as we look into 2024, and I was wondering if you could kind of maybe elaborate a little bit on kind of how different you feel the competitive intensity is from, say, a year ago, and as you budget into 2024, what do you think we should all be expecting will happen? Thanks.

Mirko Bibic – President and CEO

Thank you, David. Look, I know there's been a number of--so there are--kind of the macroeconomic environment, something we have to keep an eye on as we head into 2024. The competitive dynamic, of course, we have to be mindful of, as well as well as changes in the regulatory--potential changes in the regulatory environment, right? So those are the three things at a macro level that we're keeping a close eye on as we get ready for--well, we're well into Q4, but as we manage our way through Q4 and look forward to 2024. I would say, David, more specifically to your question, and perhaps with a focus on the more near-term of Q4 and the back-half of Q3, what we're going to do is continue to be disciplined as we have been in this environment, and our focus--and said it a couple of times in my opening remarks, our focus is going to be on premium, accretive smartphone loadings and multi-product loadings. So it's about the fine balance between quantity of loads and the quality of loads. And that's what you're going to continue to see from us.

Another thing, as an aside, is we're going to continue to improve the Virgin brand, Virgin Plus brand. And I'm pretty pleased with the trajectory of that brand, especially since we relaunched it in July. And if you think about back to school and things that I've said publicly before, it was competitive, not unreasonably so. I think you saw less in the form of hardware discounting and more in the form of data buckets, which I think is a good thing. But it was competitive. Discounting was reasonable, and as we came out of back to school, I think that discipline remained and we expect that to continue throughout Q4. And we're certainly going to continue to behave and--well, operate, not "behave" -- operate in that disciplined fashion, balancing the quality of loads and the quantity of loads.

And I'll just end by saying, like, you know, I saw the government's announcement yesterday, I think there's still going to be healthy immigration in this country, and that should be--you know, that should be lifting all boats as we look ahead.

Thane Fotopoulos – Vice President – IR

Great. Thank you. Next question please.

Operator

Thank you. The next question is from Drew McReynolds from RBC Capital Markets. Please go ahead.

Drew McReynolds – RBC Capital Markets – Analyst

Yeah, thanks very much. Good morning. Just two high-levels for me. Mirko, back to you. With all the focus on TPIA, I'm wondering if you could provide us with, first, any update you could have on the timing of that decision, and then in terms of implications for BCE, what are you most focused on with this decision and framework, and what are some of the ways you can respond to that? And then secondly, just maybe for you, Curtis, welcome aboard, and good to see you in the seat. Just wondering what your priorities are as CFO and what you're focused on as you look into 2024. Thank you.

Mirko Bibic – President and CEO

Thanks, Drew. I'll go first? All right. I don't know--I don't have much insight into when the TPIA or fibre access wholesale decision is coming out, Drew, but, you know, there's a sense that it's sooner rather than later, but I don't really know what the timing is. But more fundamentally in terms of implications, I've been doing this a long time now, and I've always said, because I fundamentally believe, that, you know, three fundamental points. They're all related. Number one is regulatory uncertainty has impacts on investment. Two, regulatory decisions which create disincentives to investment will obviously lead to a reduction in investment, and conversely, regulatory decisions that promote investment are going to lead to increases in investment. Certainly that's how we behave. That's how I operate as CEO and how we're going to manage this company.

You know, I mentioned it right at the top of my opening remarks. We got a head start in the first six months of this year on our fibre build, and we're well on track to hitting the targets we had established for ourselves for 2023. And we well knew within Q2 that we would not have a problem hitting our targets. And that's why, you know, when Glen last spoke to this group, he indicated, in the face of a number of questions, that we were going to hit our free cash flow guidance for the year, because we knew that we'd had our head start, and we knew what the capex profiling was going to be for the back half of the year. In fact, we had some--you know, some wiggle room there. Given that we had such a head start, we could have kept going and actually built more than what was in our target plan for 2023, but we decided not to because of the regulatory uncertainty that's out there. And so, I mean, if the decision isn't favourable from a fibre perspective or from a wholesale access perspective, you're going to see us slow down the build as early as next year. It's as simple as that. And that would be unfortunate because when we enter a community with fibre, we actually increase competition, because we all know that DSL isn't competitive with cable DOCSIS. Conversely, we all know that cable DOCSIS actually isn't competitive with fibre. So where we enter with fibre, we increase competition against the cable company, and then the cable company knows that, in time, it needs to upgrade its networks, build fibre of its own, which actually further increases competition. And you see the results, where we enter the customer gets better service, better value, lower prices, and that's what we're--that's what's being put at stake here with the conversation that we're generally having in the regulatory proceedings around TPIA access. Hope that answers the question.

Curtis Millen – Executive Vice President and CFO

Great. Andrew, thanks for your other question. I'd say my focus is pretty straightforward. It's how do we continue to drive free cash flow so that we can keep growing our dividend and funding our dividend? And then the second focus I'd say is, you know, we're on a path here of digital transformation and evolution, as Mirko said, into a techco. And I think that has pretty significant ramifications for our company, our free cash flow potential, as well as our customers and the services that we can provide. So as we get more efficient and flexible, it allows us to meet our customers in a in a digital world, and drive free cash flow growth for our shareholders. So I think if I had to call out two focuses--focus areas, it would be those two.

Thane Fotopoulos – Vice President – IR

Thank you. Next question please.

Operator

Thank you. The next question is from Maher Yaghi from Scotiabank. Please go ahead.

Maher Yaghi – Scotiabank – Analyst

Great. Thank you for taking my questions. I want to go back to the wireline side. Mirko, you talked about fibre-to-the-home being very competitive against coax, and we certainly saw the result of fibre-to-the-home in your results this morning. Very strong loading. Can you discuss a little bit where you're taking share from regionally, on a regional basis, and the pricing in the marketplace, how competitive it is right now compared to, let's say, a couple of--you know, three, six months ago. And your strategy to continue to grab market share. You know, is it price based competition or more technology?

So--and also on wireless, I wanted to ask you: You discussed your views on the competitive marketplace. I just wanted to ask you in terms of expectations for ARPU in Q4, where do we stand, what are the puts and takes that will drive our full growth or decline that we should think about? Thank you.

Curtis Millen – Executive Vice President and CFO

In terms--hi Maher. Thanks for the question. In terms of wireline ultimately on a on a regional basis, it's really where we have fibre, right? I mean, ultimately fibre is fibre in Québec and Ontario, and at 104,000 loads, its strong performance, call it everywhere. And ultimately, it's not solely driven by pricing. I mean, our pricing is competitive. It's a competitive market. But ultimately the network advantage, speed advantage, the up and down speed advantage that we have is what we're leveraging in the market. And then you start to combine that in a more bundled world where we have more fibre footprint, more wireline footprint. We're driving mobility and Internet bundled subscriptions as well. So, it's a combination of a few of those things.

Mirko Bibic – President and CEO

On Wireless. I think our ARPU performance was pretty good in Q3. We kept--we kept our stable in the environment that we had. And I think the puts and takes are both, you know, service revenues ARPU. Roaming growth did slow down. I called that out. It slowed down year-over-year and sequentially, and data overage continues to decline as customers continue to move to larger unlimited plans. But, you know, our monthly recurring charges, Maher, accounted for 85% of our service revenue growth, and also a big driver of our ARPU performance. And that's a good thing, and it shows the focus that we have on premium loadings on 5G.

And I think as you look forward to Q4, just--I won't repeat what I what I said in response to David's question, but I would--in terms of our approach, you're going to continue to see us manage that balance between quantity and quality so that we can deliver what you all expect of us, both the strong subscriber performance, but strong financial performance.

Operator:

Thank you. The next question is from Tim Casey from BMO Capital Markets. Please go ahead.

Tim Casey – BMO Capital Markets – Analyst

Thanks, Mirko. Given the free cash flow profile you've outlined, that you'll meet your targets, but you did recently make an acquisition. You've got a spectrum auction coming up, and, as you highlighted, there are some economic concerns. How do you put that all together with a shareholder base that continues to expect dividend increases in light of where leverage is? How should we think about that going into next year?

Mirko Bibic – President and CEO

Look, just--I'd say this. We know what investors seek from us, right? You know, I've said this time and again, it's stability of the dividend first and foremost, and it's free cash flow growth supporting that dividend. We're going to continue to be laser-focused on that. We have said for a couple of years now, quite clearly, we telegraphed that we would be operating at an elevated payout ratio so that we could do the things that are strategically important to this company and to shareholders for the medium- and long-term, and you're seeing us deliver on those promises and that roadmap, and at the same time, we're going to continue to take significant costs out of the business. You know, I've highlighted that in the past. I've reiterated it today. So has Curtis. So again, all these things that we're doing, Tim, they're going to pay off in the medium term, pay dividends literally, another way to put it. And at the same time when these opportunities come up like tuck-in acquisitions, you know, you saw the one last week, we're going to take advantage of those because they're strategically important.

So, you know, when you take a step back, you know, our priorities for capital allocation, the dividend fibre build spectrum, and investments in digital and in efficiency-enhancing initiatives, that's what we're going to do.

Operator

Thank you. The next question is from Batya Levy from UBS. Please go ahead.

Batya Levi – UBS – Analyst

Great. A question on Media. Can you provide a bit more colour on the proposed acquisition of Outfront and how that would change the growth profile of the media unit, and if we should think about any synergies that could come with that? Thank you.

Curtis Millen – Executive Vice President and CFO

Yeah, hi Batya. Thanks for the question. So Outfront out-of-home we announced last week. Obviously we don't have approvals yet. Expect to pick those up in first half of next year. I would say it's a relatively small tuck-in acquisition, but it is in an actual growth area for our media business, and transaction is accretive immediately, but again, quite small. I'd say the assets are complementary to ours. It allows us and our out-of-home footprint to be truly national. We will drive synergies there. There are some cost synergies and also some strategic benefits. But again, in terms of changing the overall trajectory, it's not--it's not that big an impact.

Operator

Thank you. The next question is from Aravinda Galappatthige from Canaccord Genuity. Please go ahead

---

Aravinda Galappatthige – Canaccord Genuity – Analyst

Good morning. Thanks for taking my question. I just wanted to go back to the comments you made in your prepared remarks about, you know, delivering stronger EBITDA growth, you know, through cost management and the efficiency initiatives that you've kind of outlined. How should we think of Bell's broader digital transformation, the initiatives you talked about? Like where are you--where are you in that sort of, you know--which innings are you in, I guess is what I'm asking? Trying to get a sense of what we can expect in the future compared to sort of the periodic cost reductions you delivered in the past.

Mirko Bibic – President and CEO

Yeah. So there are there are periodic cost reductions we do--we've done in the past including in June of this year, which allow you to change the cost structure, and then there are the types of initiatives that I teed up in my opening remarks I think you're asking about, which both reduce your costs but also kind of transform the way we operate, and as Curtis mentioned, actually enhance the customer experience. So I can give you some examples just to put a bit more flesh on the bone.

So you know, we have--we did undertake working for the past little while on integrating multiple billing systems that we've had in our company down to one. So for example, on the--in the consumer segment, particularly in Ontario and Québec, we've typically had five legacy billers and we've collapsed those into one biller, and then we're starting to migrate customers from the old system to the new system. And that will lead to consumer goodness. That would be just one example. Another example is continuing to evolve our digital platforms and our self-serve apps, which are already rated best in class, and we're continuing to make those even more--even better and more intuitive for our customers. There's real estate optimization, which we've talked about before. We've launched customer self-install, which we've--which we've improved over time. And as more customers--more locations get actually physically connected to fibre, it increases the number of eligible homes to which we can offer self-install.

Of course, with the expansion of fibre, there's the copper decommissioning journey that we've talked about. You know, it's things like that.

And then the hard periodic blocking and tackling, like streamlining sponsorships, discretionary management expense, vendor consolidation, all of these things are the things we're going to do to ensure that we can continue to deliver longer term margin expansion. And, of course, the whole transition to the cloud. We are--we announced our Google Cloud and AWS deals about two years ago, and a significant portion of those deals is moving some of our own workloads to the cloud, which will--which will create some efficiencies for us and some customer service improvements. I mean I'll stop there. I don't want to give you a full laundry list, but think those six, seven, eight items give you a sense.

Operator

Thank you. Our next question is from Simon Flannery from Morgan Stanley. Please go ahead.

Simon Flannery – Morgan Stanley – Analyst

Right. Good morning. Thanks for your time. So I wonder if we could come back to the fibre-to-the-home, obviously some great momentum there. There's been a lot of concern about just increasing costs to build, and it'd be great to just get any colour on what you're seeing out there in the marketplace, and how you're seeing the returns on that investment, as well as any benefits on the churn side, and on sort of the lower costs of repair and maintenance going forward. Thanks.

Curtis Millen – Executive Vice President and CFO

Yeah, hi Simon. Thank you for the question. I'd say on the fibre-to-the-home side, we actually have not seen an increasing cost to build. I think ultimately, you know, we're mitigating inflationary risks here with just more efficiency. And frankly, we've been doing this over a decade now. So we just keep getting better and better at building out fibre. So we're not really seeing an increase in cost. We're seeing increase in efficiency.

Mirko Bibic – President and CEO

And some of the some of the benchmarks I look at in terms of the metrics, churn does remain quite a bit lower in fibre territory than not. You can actually see it in the numbers, like, 104,000 fibre net additions, but 79,000 total net additions. The churn is lower by, you know--I've said in the past 30 to 35 basis points. Lifetime value of a fibre customer is significantly higher. And service and support costs, you know, what I've said time and again, is you can expect it to be about 40% lower on fibre than on copper, and that number is generally--remains generally the same.

Operator

Thank you. Our next question is from Jérome Dubreuil from Desjardins Securities. Please go ahead.

Jérôme Dubreuil – Desjardins Securities – Analyst

Thank you. Good morning everyone. So thanks for taking my question. First one I have is on the wireless environment, you know, with the MVNO rates decisions, we have high, large data buckets. Now we have the Lucky and Virgin brands being sold at Bell locations. Do we find ourselves in a market where the wireless service is a bit more commoditized, maybe, than they used to be, and if so, what would that mean in terms of how you operate the business going forward?

Mirko Bibic – President and CEO

No, I think there's still--first of all, there's a lot of growth potential in the wireless environment. Let's start there. So population growth, penetration headroom, the transition to 5G, again, people who--customers who migrate to 5G spend more and use the service more, consume more data. There's a goodness for--in particular on our side, with the multi-product household, where I've said in the past, we're under-penetrated compared to some of our peers and we're closing those gaps. And, of course, the immigration tailwinds. So all of that leads to growth.

In terms of the other part of your question, I would say that there's still points of differentiation that we're going leverage and we're going to use against our competitors. So, you know, the fact that we have the best network is a value proposition that customers are well aware of. And even in terms of our own brands, like Lucky's not at all the same as Virgin or Bell in terms of the value proposition. And, you know, Bell and Virgin are still separated in terms of value prop. So 5G+ on Bell, no 5G+ on Virgin. Multi-gig on Bell on Internet, and not so on Virgin. Wi-Fi 6E on Bell, not so on Virgin. You know, and multi--Internet and mobility discounts, not so on Virgin. So there's still value differentiation there, and we're managing--we're managing all three brands quite well.

Operator

Thank you. Our next question is from Stephanie Price from CIBC World Markets. Please go ahead.

Stephanie Price – CIBC World Markets – Analyst

Good morning. Hoping you could dig a little bit more into the BYOD and the lower device financing trend that we're seeing in the market. Can you talk a little bit about how it's impacting financing and whether you think this device upgrade rate could go even lower in the future? And related question, what you're seeing in terms of new iPhone launch and any implications there for margins in Q4? Thanks.

Mirko Bibic – President and CEO

I don't have a specific comment on the iPhone launch to share. As far as BYOD, you know, obviously that's financially accretive. If we can, you know, put--ask the customer to pay for the cost of the handset, it's a good thing. And as we improve the network and customer service, we can lower the transaction intensity without--it would certainly lower the level of discounting on handsets, while at the same time not increasing the level of transaction intensity. So if you can keep churn low because of the superior product offering we have while not having to subsidize deeply discounted, you know, devices, that's a good thing all around. I think the trend is in the right direction there, and generally positive, but I think there's more we can do to make it even better.

Operator

Thank you. There are no further questions registered at this time. I will now like to turn the meeting over to Mr. Fotopoulos.

Thane Fotopoulos – Vice President – IR

Thanks, Matthew, and thank you again to everybody for attending our call this morning. The IR team, either Richard or myself, will be available throughout the day for clarifications and follow ups. On that, I wish everybody a great day.

Mirko Bibic – President and CEO

Thank you everyone.

Curtis Millen – Executive Vice President and CFO

Thank you. Have a good day.